

# MARKETBEAT OFFICE SNAPSHOT

## OTTAWA, ON

A Cushman & Wakefield Alliance Research Publication

Q3 2012



### ECONOMIC OVERVIEW

Overall employment in the region declined to 705,100 jobs in August, about 3,600 fewer positions than the total for July. However, due to the approximate same number of people no longer seeking work, the unemployment rate held steady at 6.3%, three-tenths of a percentage point higher than last quarter. The year-over-year picture does remain positive, as there were 8,800 more people working in Ottawa-Gatineau in August 2012 compared to August 2011.

### VACANCY REMAINS STABLE

The third quarter of 2012 marks the seventh consecutive quarter where vacancy has fluctuated between a low of 7.1% and a high of 7.4%. For this quarter vacancy was 7.3%, just 0.1 percentage points higher than last quarter. The Central and Suburban East markets posted slight declines in their vacancy rates, to 5.7% and 3.7% respectively, while there was a slight softening in the Suburban West vacancy rate which climbed to 10.5% from 10.2% last quarter.

### LITTLE CHANGE IN OVERALL DEMAND

Overall absorption remained positive, although levels did decline from last quarter to 35,000 square feet (sf). This brings the overall absorption for the year to positive 4,200 sf. Overall demand was strongest in the class A segment at 68,000 sf, while both the B and C classes experienced negative absorption of a combined 33,500 sf. Leasing activity did accelerate during this quarter to 322,000 sf, approximately 50,000 sf higher than last quarter, bringing the year-to-date total to 843,000 sf. Although there were a few notable exceptions, such as the significant transactions that occurred within the Downtown Core and Kanata, the majority of the transactions were in the 5,000-sf and under range. The current year-to-date leasing total is substantially lower than at this point last year, when leasing activity was over 1.3 million square feet (msf). This significant decline in leasing activity, coupled with the minimal absorption, clearly demonstrates the low market velocity that Ottawa has experienced over the course of 2012.

### OUTLOOK

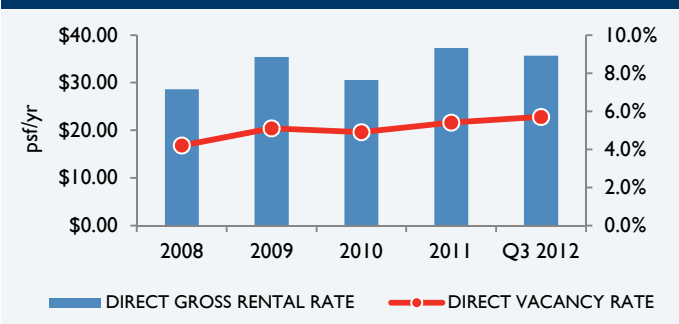
Although the news came too late to affect third quarter statistics, in late September the federal government made two significant announcements. The first was that the Department of Justice will be relocating to the SunLife Financial Centre where they will be taking immediate possession of approximately 78,000 sf. The second is that the Bank of Canada will

be relocating to 234 Laurier Ave. W. where they will be occupying approximately 335,000 sf. In terms of upcoming vacant space there could be upwards of 250,000 sf set to come on the market over the course of the next six months, almost evenly split between the Central and Suburban West markets. It is highly unlikely that the market will have recovered enough to absorb all of this space, and since the Bank of Canada is moving into a building that has been temporarily removed from the statistical calculations while the premises are being renovated, overall vacancy could potentially rise to 7.8%.

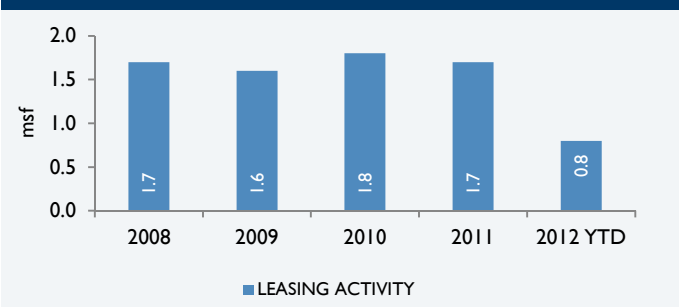
### STATS ON THE GO

	Q3 2011	Q3 2012	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	7.0%	7.3%	0.3pp	▲
Direct Asking Rents (psf/yr)	\$20.18	\$18.65	-7.6%	◀▶
YTD Leasing Activity (sf)	1,369,412	843,410	-38.4%	▼

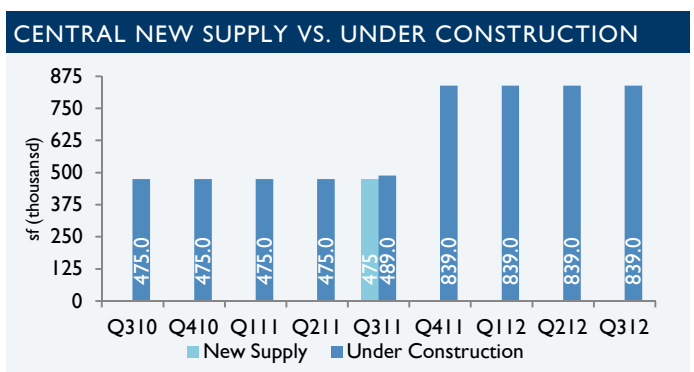
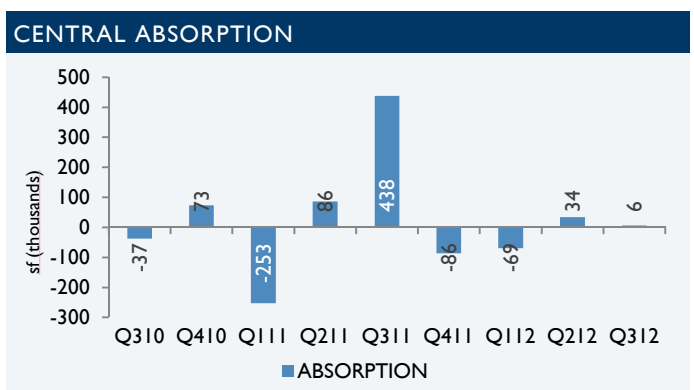
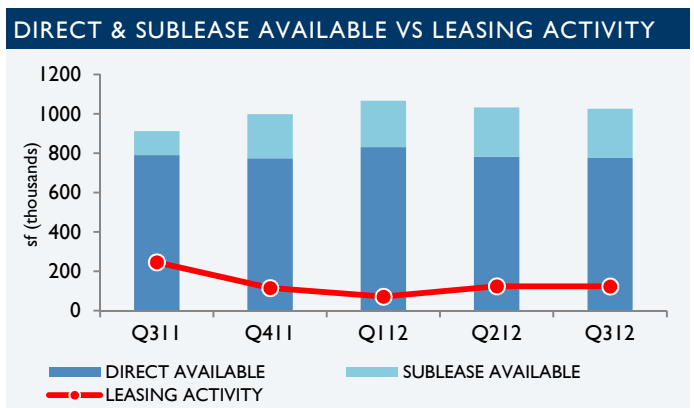
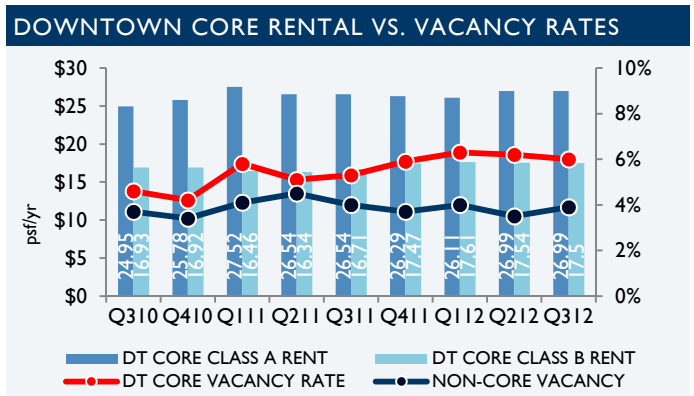
### DIRECT RENTAL VS. VACANCY RATES



### LEASING ACTIVITY



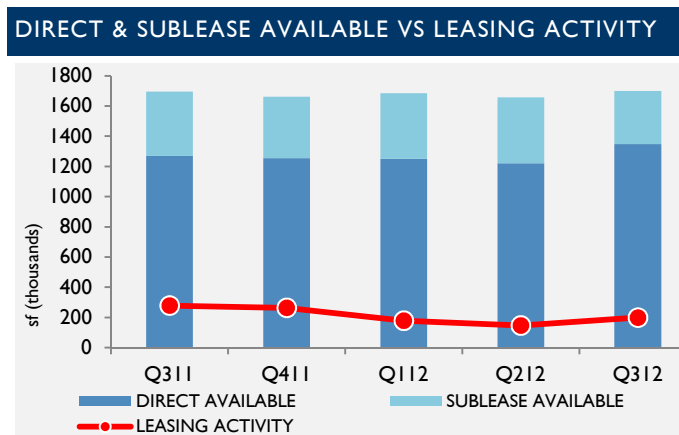
- Vacancy within the Downtown Core remains steady, as the vacancy rate declined by 0.2 percentage points this quarter to reach 6.0%. Class A vacancy declined by the same amount to reach 5.6%, while class B vacancy increased to 6.5% and class C vacancy decreased to 8.6%. The overall average asking rental rate for the downtown core remained almost unchanged at \$22.41 per square foot (psf), with class A rents stable with last quarter at \$26.99 psf.
- The non-Core vacancy edged up by 0.4 percentage points to reach 3.9%, the result of a handful of new small pockets of vacancy within the Centretown market. This resulted in Centretown vacancy climbing to 4.9%, while vacancy was almost unchanged in the Byward Market at 2.1%.
- The overall amount of space available within the Central Area was virtually unchanged from last quarter with the amount of direct available totaling 776,000 sf and the amount of sublet space at 249,000 sf. Sublet space continues to be almost entirely located within the class A downtown core, where five towers each have over 20,000 sf available for sublease.
- Leasing activity within the Central Area was almost identical to last quarter, reaching 123,000 sf, and brings the year-to-date total to 318,000 sf – approximately 300,000 sf lower than at this point last year. Almost all of the leasing activity was focused within the class A and B downtown core segments, with the most notable transaction involving Ernst & Young, which leased close to 28,000 sf at 99 Bank Street.
- Absorption within the Central market continues to be minimal. Numbers remained positive at just over 6,000 sf, as the negative absorption of 16,000 sf in the class B segment offsets much of the 23,000 sf of positive absorption in the class A segment.
- Absorption will receive a boost next quarter due to the recent announcement that the Department of Justice will be leasing 78,000 sf in a downtown core class A complex. This transaction will help to negate the effects of close to 22,000 sf becoming available next quarter as CIHI consolidates their space at 495 Richmond Road.
- There was no change in Central Area new supply or buildings currently under construction in the third quarter of 2012. Construction continues at both 90 Elgin Street, the 646,000-sf tower being built for the federal government, and 150 Elgin Street, the 350,000-sf tower that is being constructed largely on speculation. Canada Council of the Arts has been announced as a tenant in that building and will be occupying approximately 85,000 sf. It has also been reported elsewhere that KPMG may also be moving to the new tower although there has no official confirmation as of yet.



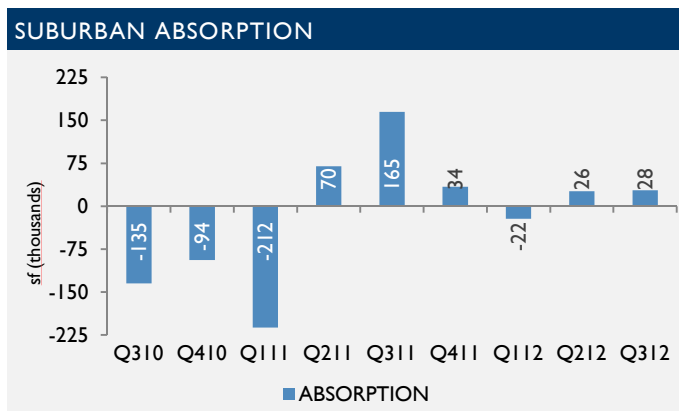
- In an interesting development, vacancy within the overall Suburban market has either been at 8.7% or 8.5% and has fluctuated between those two rates every quarter for the past year. This quarter vacancy was up to 8.7%. The Suburban West vacancy rate edged up slightly to 10.5%, while vacancy within the Suburban East market declined once again to reach 3.7%.
- Overall asking rental rates increased slightly to \$14.36 psf. Rates increased in both the Suburban West and Suburban East markets this quarter to \$13.97 psf and \$15.29 psf, respectively.



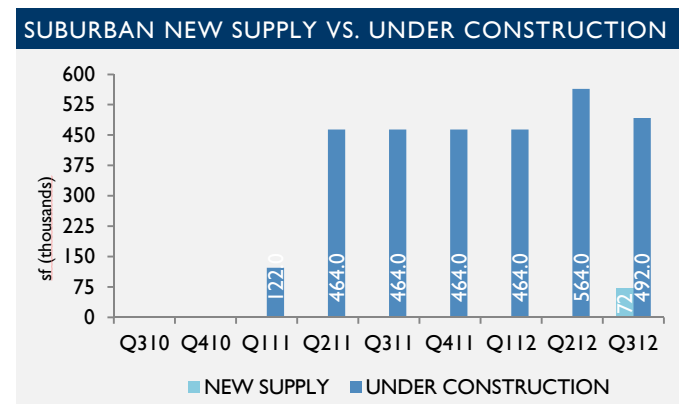
- The amount of direct space available in the Suburban market increased this quarter to 1.35 msf. However, the amount of overall sublease space declined to 353,000 sf, the lowest amount available over the past five quarters. Shrinking sublet space availability in the Kanata submarket was the driving force behind the overall decrease as about 67,000 sf of space at 500 Palladium switched from sublet availability to direct.
- Leasing activity picked up some momentum from the lows seen during the past two quarters to reach 199,000 sf. Activity was focused with the Suburban West market, particularly the Kanata class A segment as there were six transactions over 10,000 sf.



- Overall absorption for the Suburban market continues to remain lackluster, although totals remained positive at 28,000 sf.
- Despite the completion of 2611 Queensview Drive, a 72,000-sf class A property, absorption in the overall Suburban West market was almost flat at just over 16,000 sf. Contributing factors behind this include the Queensview property's completion with 36,000 sf still available, coupled with two new availabilities totaling 46,000 sf.
- Within the Suburban East market, absorption was also minimal at just under 12,000 sf. Unlike the Suburban West market where demand is just slightly outpacing new availabilities, absorption figures here are being influenced by the low vacancy rate and tenants largely maintaining their status quo.



- 2611 Queensview Drive was completed this quarter, with approximately half of the building occupied by Genivar and the remaining half available for lease. Construction continues on three new buildings, with the new building for Research in Motion expected to be completed by the end of the year. The other two buildings – one pre-leased by the federal government and the other approximately 60% leased by Stantec – are due to be completed in 2013. Construction is also expected to get underway shortly on a new build in the Suburban East market. This 140,000-sf building will house AEFO with the remainder of the building being available for lease.



## OTTAWA

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	OVERALL ABSORPTION CURRENT QUARTER	YTD OVERALL ABSORPTION	WTD. AVG ALL CLASSES GROSS RENTAL RATE*	WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown Core	15,211,498	6.0%	4.5%	258,395	839,000	0	18,454	(21,319)	\$43.50	\$51.79
Centretown	1,769,448	4.9%	4.5%	31,920	0	0	(11,002)	(26,548)	\$30.03	N/A
Byward Market	914,861	2.1%	1.0%	27,811	0	0	(1,274)	19,465	\$32.47	\$34.00
<b>Non-Core Total</b>	<b>2,684,309</b>	<b>3.9%</b>	<b>3.3%</b>	<b>59,731</b>	<b>0</b>	<b>0</b>	<b>(12,276)</b>	<b>(7,083)</b>	<b>\$31.25</b>	<b>\$34.00</b>
<b>Overall Central</b>	<b>17,895,807</b>	<b>5.7%</b>	<b>4.3%</b>	<b>318,126</b>	<b>839,000</b>	<b>0</b>	<b>6,178</b>	<b>(28,402)</b>	<b>\$41.71</b>	<b>\$51.54</b>
Kanata	5,208,463	15.7%	12.8%	236,131	122,450	0	19,304	41,753	\$24.91	\$26.11
Ottawa West	3,669,207	8.9%	6.4%	122,679	0	72,000	17,636	(21,649)	\$31.23	\$34.08
Nepean	5,455,838	6.7%	5.1%	79,628	100,000	0	(20,449)	(60,406)	\$26.74	\$29.15
<b>Suburban West Total</b>	<b>14,333,508</b>	<b>10.5%</b>	<b>8.2%</b>	<b>438,438</b>	<b>222,450</b>	<b>72,000</b>	<b>16,491</b>	<b>(40,302)</b>	<b>\$27.63</b>	<b>\$28.95</b>
Ottawa East	3,790,796	3.7%	3.1%	44,213	269,100	0	13,043	52,064	\$28.55	\$31.79
Gloucester	1,397,799	3.4%	3.4%	42,633	0	0	(1,044)	20,852	\$16.88	\$34.91
<b>Suburban East Total</b>	<b>5,188,595</b>	<b>3.7%</b>	<b>3.2%</b>	<b>86,846</b>	<b>269,100</b>	<b>0</b>	<b>11,999</b>	<b>72,916</b>	<b>\$31.72</b>	<b>\$33.62</b>
<b>Overall Suburban</b>	<b>19,522,103</b>	<b>8.7%</b>	<b>6.9%</b>	<b>525,284</b>	<b>491,550</b>	<b>72,000</b>	<b>28,490</b>	<b>32,614</b>	<b>\$28.34</b>	<b>\$30.14</b>
<b>OVERALL CITY</b>	<b>37,417,910</b>	<b>7.3%</b>	<b>5.7%</b>	<b>843,410</b>	<b>1,330,550</b>	<b>72,000</b>	<b>34,668</b>	<b>4,212</b>	<b>\$35.66</b>	<b>\$40.60</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

<b>Significant Q3 2012 Lease Transactions</b>	<b>SUBMARKET</b>	<b>TENANT</b>	<b>BUILDING CLASS</b>	<b>SQUARE FEET</b>
99 Bank Street	Downtown Core	Ernst & Young	A	27,721
411 Legget Drive	Kanata	Semtech	A	11,454
<b>Significant Q3 2012 Sale Transactions</b>	<b>SUBMARKET</b>	<b>BUYER</b>	<b>PURCHASE PRICE / \$PSF</b>	<b>SQUARE FEET</b>
200 Kent Street	Downtown Core	Great West Life Assurance	\$143,400,000 / \$370	387,183
77 Metcalfe Street	Downtown Core	Bentall Kennedy	\$45,000,000 / \$341	132,063
145 Robertson Road	Nepean	Huntington Properties Inc.	\$8,350,000 / \$173	48,390
<b>Significant Q3 2012 Construction Completions</b>	<b>SUBMARKET</b>	<b>MAJOR TENANT</b>	<b>COMPLETION DATE</b>	<b>BUILDING SQUARE FEET</b>
2611 Queensview Drive	Ottawa West	Genivar	Q3 2012	72,000
<b>Significant Projects Under Construction</b>	<b>SUBMARKET</b>	<b>MAJOR TENANT</b>	<b>COMPLETION DATE</b>	<b>BUILDING SQUARE FEET</b>
90 Elgin Street	Downtown Core	PWGSC	Q4 2014	646,000
150 Elgin Street	Downtown Core	Canada Council for the Arts	Q1 2014	350,000
395 Terminal Avenue	Ottawa East	PWGSC	Q1 2013	269,100

\* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS